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Report on the UNIFEM cost recovery policy

Summary

The cost recovery policy of UNIFEM remains anchored in the harmonized principles commonly accepted by United Nations organizations. UNIFEM is cognizant of the fact that, following several years of policy implementation, there is a need to simplify its cost recovery policy in line with inter-organization harmonization efforts so as to increase the effectiveness of policy application. Specifically, the present report suggests that UNIFEM use a single rate of seven per cent to recover the variable indirect costs of new projects funded from third-party cost sharing and trust funds.

Elements of a decision

The Executive Board may wish to:

(a) Welcome the engagement of UNIFEM in the efforts to harmonize its cost recovery policy among United Nations organizations for multi-donor trust funds, joint programmes, and joint offices;

(c) Reiterate the need for UNIFEM to continue monitoring efforts to ensure that functions linked to the management of other resources are adequately funded without undue subsidization by regular resources;

(d) Take note of the present report; endorse the policy elements contained herein with respect to the recovery of indirect and direct support costs; and, in particular, recommend that a general management support cost recovery rate of seven per cent be established for new third-party and trust fund contributions.

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Contents

Chapter		Pages
I.	Background	3
II.	Summary of current policy principles and practices	3
III.	Policy harmonization	5
IV.	Policy reformulation and conclusions	5

I. Background

1. This report is submitted in response to a request expressed by the Executive Board in decision 2007/23 for the United Nations Development Fund for Women (UNIFEM) to "carry out a review of its cost-recovery policy and to report to the Board at its January 2008 session".

2. In addition, during recent Executive Board discussions on the UNIFEM biennial support budget for 2008-2009 UNIFEM was asked to provide additional information on its cost recovery policy. Those discussions encouraged UNIFEM to harmonize its cost recovery policy with those commonly used by United Nations Development Group (UNDG) member organizations.

3. The present report comprises two main elements. First, it provides a summary of the existing policy and a record of its implementation. Second, it describes the rationale for, and recommends moving towards, a policy position harmonized with the UNDG member organizations.

II. Summary of current policy principles and practices

4. As applied in UNIFEM (and among UNDG members and most other United Nations organizations), cost recovery is the charge levied on 'other resources' (non-core) programme expenditures for the estimated incremental costs to UNIFEM associated with assuming the responsibility for managing the implementation of programmes funded through such resources.

5. The current policy is based on a harmonized set of principles and cost definitions common to United Nations organizations and endorsed by the Executive Board in its decision 2004/30 (see boxes 1 and 2).

Box 1. Harmonized cost recovery principles

1. In a multi-funded organization (having regular and other resources), each source of funding should bear all attributable costs for the necessary management provided by the organization.

2. All costs can be classified as 'direct', 'fixed indirect' or 'variable indirect' costs, based on the mandate and business model of each organization (see box 2).

3. While United Nations organizations have agreed on a common definition of cost categories, each organization must match its costs against the categories to make them meaningful. Cost recovery would generally apply to variable indirect costs. In organizations without 'untied' contributions, all indirect costs must be recovered.

6. Harmonized cost definitions in particular, as summarized below, are highly relevant in the context of current UNIFEM cost recovery practices.

Box 2. Cost classification – harmonized cost definitions

Direct costs. Direct costs are all costs that are incurred for, and can be traced in full to, the activities, projects and programmes of an organization in fulfilment of its mandate. Included are the costs of project personnel, equipment, project premises, travel and any other inputs necessary to achieve the results and objectives established for programmes and projects.

Fixed indirect costs. These are all costs incurred by the organization regardless of the scope and levels of its activities that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include the top management of an organization, its corporate costs, and statutory bodies not related to service provision.

Variable indirect costs. Variable indirect costs are all costs incurred by the organization as a function and in support of its activities, projects and programmes that cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include services and administrative units, as well as their related system and operating costs.

7. In UNIFEM, cost recovery applies to the *variable indirect* and *direct* cost components. These are expressed as two distinct categories of programme support services, namely, General Management Support (GMS – indirect costs) and implementation support services (ISS – direct costs).

8. GMS encompasses general oversight and management functions of UNIFEM headquarters and subregional programme offices. These constitute variable indirect costs incurred by UNIFEM as a whole for specific services, such as, for example:

(a) Project identification, formulation, and appraisal;
(b) Determination of execution modality and local capacity assessment;
(c) Briefing and debriefing of project staff and consultants;
(d) General oversight and monitoring, including participation in project reviews;
(e) Receipt, allocation and reporting to the donor of financial resources;
(f) Policy advice and technical backstopping;
(g) Knowledge management and transfer; and
(h) Systems, information technology infrastructure, and branding.

9. Although the present report focuses specifically on the *variable indirect costs* incurred in providing GMS to UNIFEM programmes, it should be noted that it is the policy of UNIFEM to charge to projects all *direct* ISS costs (provided mainly by subregional programme offices). These include additional costs incurred for:

(a) Payments;
(b) Recruitment of staff;
(c) Procurement of services and equipment;
(d) Organization of training activities;
(e) Travel authorization; and
(f) Shipping.

10. The recovery of ISS presents unique implementation challenges related to 'transactional' ISS, that is, implementation services traceable to specific transactions. Subregional programme offices are encouraged to identify in the design of projects all the necessary support elements, and to establish corresponding budget lines in the programme budgets for these direct costs, consistent with the harmonized cost definitions in box 2, above.

11. For third-party cost-sharing and trust funds, the current policy prescribes a rate in the range of 3 to 13 per cent on expenditure to recover both types of costs. The table opposite provides details of support costs recovered for administering cost-sharing and trust fund resources from 2004 to 2006 (in millions of dollars).

Description	2004	2005	2006
Programme expenditure	12.9	28.2	27.6
Contributions received	25.9	31.6	32.6
Amounts charged	1	2.1	2.3
Effective rate	7.8%	7.5%	8.3%

III. Policy harmonization

12. The table above shows that UNIFEM co-financing resources have increased steadily over the period. While this growth has enabled UNIFEM to deliver high-quality development programmes, considerable costs are incurred to manage and administer those new contributions.

13. UNIFEM is committed to regularizing and harmonizing its cost recovery policy in line with recent UNDG decisions. UNIFEM therefore proposes to recover indirect costs for third-party cost sharing and trust fund contributions at a standard rate of 7 per cent. Subregional offices will identify all the necessary support elements in the design of projects, and will establish corresponding budget lines in the programme budgets for these direct costs, consistent with the harmonized cost definitions provided in box 2.

14. This approach has the advantage of being consistent with the UNDG organizations (UNDP, UNICEF, UNFPA and the World Health Organization have a 7 per cent recovery rate) and having a simple structure, which would reduce the time required for negotiating co-financing agreements, and would facilitate the subsequent recording and allocation of the amounts to global, regional and national programmes by the end of each year.

15. It should be noted that UNIFEM has been participating in various joint programmes with United Nations organizations where it has been using the 7 per cent rate for its cost recovery.

16. At the rate of 7 per cent, the amount recovered would appear to be slightly lower than may have been recovered applying the actual recovery percentages in 2004 to 2006. However, based on past growth and current indications it is expected that there will be considerable volume growth, which will result in increased opportunities for efficiency-driven economies of scale.

IV. Policy reformulation and conclusions

17. Based on the foregoing, it is proposed that, as a general rule, all new 'other resources' contributions received in the form of third-party cost-sharing and trust funds should be subject to a flat cost recovery rate of 7 per cent.

18. If endorsed, this proposed policy adjustment would be limited to trust-fund and third-party contributions received by the organization subsequent to its endorsement. It would be unrealistic to expect current agreements to be retrofitted and donors to agree to apply a GMS increase to programmes under implementation, or to contributions scheduled to be received as part of existing agreements.

19. Finally, it has been argued that the volume of contribution should drive the rate at which support costs are charged, since economies of scale lead to efficiency and savings (recognizing the desirability of maintaining some degree of authority to grant exceptions to the 7 per cent flat rate rule).

20. UNIFEM proposes that some flexibility be retained, on a case-by-case basis, with the Executive Director to accommodate specific donor contributions where strategic priorities and/or partnership and harmonization goals are involved and where the volume of the contribution far exceeds the current norm.